

**Houghton County Road Commission
Component Unit Financial Statements
For the Year Ended September 30, 2005**

HOUGHTON COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Kenneth A. Rowe, Chairperson

William H. Siler, Vice Chairperson

James B. Markham, Member

Kevin P. Harju, County Highway Engineer

Kim Sohlden, Office Manager

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INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Houghton County Road Commission
Hancock, MI 49930

We have audited the accompanying financial statements of the governmental activities of the Houghton County Road Commission a component unit of the County of Houghton, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, of the Houghton County Road Commission as of September 30, 2005, and the changes in financial position there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 6 through 11 and budgetary comparison information on pages 25 through 26 is not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated January 13, 2006 on our consideration of the Houghton County Road Commission's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to

Honorable Chairman and Members
of the Board of Commissioners
County of Houghton, Michigan

provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinion's on the financial statements that collectively comprise the Houghton County Road Commission's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Houghton County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 13, 2006

Houghton, County Road Commission MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of Houghton County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended September 30, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services are financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

The Houghton County Road Commission is one of the most unique county road commissions in the State of Michigan due to their yearly budget being so dependent upon the severity of the winter season.

The Houghton County Road Commission routinely spends between 30% and 50% or more of their Michigan Transportation income on snow removal costs each year, the highest in the State of Michigan.

The highest cost of snow removal is due to five month long winters with up to 350 inches of snow and the extremely high cost of operating and maintaining a 10 million dollar fleet of specialized equipment needed to operate, not only the open county roads, but in the narrow 25 or 30 foot right-of-ways in the old mining era residential locations.

In addition to the operating costs associated with sophisticated snow removal equipment, the Houghton County Road Commission must annually place and clean up some 15,000 tons of abrasives and salt on their 835 mile county road system.

The winter maintenance activity typically may last up to 6 months or more, and is the top priority item in the development of an operating budget each year, with contract federal aid construction, routine maintenance and road commission financed construction following in order of priority.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

Overview of the Financial Statements

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to ensure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Houghton, County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Reporting the Commission as a Whole

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the conditions of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 14. The fund financial statements begin on page 27 and provide detailed information about the major fund.

Governmental Funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 9%, or \$788,554, from \$8,527,785 to \$9,316,339 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the

Houghton, County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

government to assess, levy, and charge or otherwise mandate payment of resources and include a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation; as such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The restricted net assets decreased by \$419,818 during 2005.

CLIENT RESPONSE HERE - - - - -

The investment in capital assets, net of related debt increased by \$368,736. The increase in net assets is primarily the result of the reporting infrastructure \$1,020,491 for the year 2005. The depreciation for the current year's infrastructure will be depreciated in the subsequent years. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB 34.

Net assets as of year ended September 30, 2005 follows:

	2005	2004
Current and other assets	\$2,317,938	\$1,674,812
Capital assets	8,020,837	7,652,101
Total Assets	<u>10,338,775</u>	<u>9,326,913</u>
Long-term debt outstanding	333,370	376,201
Other liabilities	689,066	422,927
Total Liabilities	<u>1,022,436</u>	<u>799,128</u>
Net Assets:		
Invested in capital assets, net of		
Related debt	8,020,837	7,652,101
Restricted – debt service	-	-
Restricted – operations	1,295,502	875,684
Total Net Assets	<u>\$9,316,339</u>	<u>\$8,527,785</u>

Houghton, County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2005 and 2004 follows:

	Governmental Activities – 2005	Governmental Activities – 2004
Program Revenue:		
License and Permits	\$ 16,193	\$ 18,101
Federal Grants	59,809	1,069,818
State Grants	4,282,781	4,265,960
Contributions From Local Units	376,908	280,390
Charges for Services	37,152	50,269
Investment Earnings	18,322	2,663
Reimbursements	77,971	44,084
General Revenue:		
Taxes	478,394	428,216
Gain on Equipment Disposal	3,500	11,717
Total Revenue	<u>5,351,030</u>	<u>6,171,218</u>
Expenses		
Public Works	4,560,508	4,504,972
Interest Expense	1,968	3,582
Total Expenses	<u>4,562,476</u>	<u>4,508,554</u>
Excess Before Transfers	788,554	1,662,664
Transfers In—Primary Government	-	-
Increase in Net Assets	<u>\$788,554</u>	<u>\$1,662,664</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2005, the fund balance of the general operations fund increased \$376,987 as compared to a decrease of \$409,596 in the fund balance for the year ended September 30, 2004. Total operating revenues were \$5,351,030, a decrease of \$820,188 as compared to last year. Total expenditures were \$4,974,043, a decrease of 1,606,771, as compared to last year.

CLIENT RESPONSE HERE - - - - -

Houghton, County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

A summary of changes in the Operating Fund is as follows:

	9/30/05 Operating Fund	9/30/04 Operating Fund	Favorable (Unfavorable) Variance	Variance Percent
Revenues				
Taxes	\$478,394	\$428,216	\$50,178	12%
License & Permits	16,193	18,101	(1,908)	11
Federal Grants	59,809	1,069,818	(1,010,009)	94
State Grants	4,282,781	4,265,960	16,821	1
Contributions From Local Units	376,908	280,390	96,518	34
Charges for Services	37,152	50,269	(13,117)	26
Interest and Rents	18,322	2,663	15,659	588
Other Revenue	81,471	55,801	25,670	46
Total Revenues	<u>5,351,030</u>	<u>6,171,218</u>	<u>(820,188)</u>	<u>13</u>
Expenditures				
Public Works	5,615,795	6,893,973	(1,278,178)	19
Net Capital Outlay	(643,720)	(316,741)	(326,979)	103
Debt Service	1,968	3,582	(1,614)	45
Total Expenditures	<u>4,974,043</u>	<u>6,580,814</u>	<u>(1,606,771)</u>	<u>24</u>
Excess of Expenditures Over Revenues	<u>376,987</u>	<u>(409,596)</u>	<u>786,583</u>	<u>192</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>376,987</u>	<u>(409,596)</u>	<u>786,583</u>	<u>192</u>
Fund Balance—Beginning	<u>1,251,885</u>	<u>1,661,481</u>	<u>(409,596)</u>	<u>25</u>
Fund Balance--Ending	<u>\$1,628,872</u>	<u>\$1,251,885</u>	<u>\$376,987</u>	<u>30 %</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget were compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005 was \$691,000, lower than the original budget. The actual revenue recognized during 2005 was less than the final amended budget by \$208,970.

The final amended expenditure budget for 2005 was \$467,000, lower than the original budget. The actual expenditures recognized during 2005 were less than the final amended budget by \$802,957.

Houghton, County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

CLIENT RESPONSE HERE - - - - -

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2005, the Road Commission had invested \$8,020,837 in capital assets. This amount represents a net increase (including additions and deductions) of \$368,736 or 5% as follows:

	2005	2004	Total Percentage Change 2005/2004
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 88,137	\$ 78,148	13%
Land/Right-of-Way	-	-	N/A
Construction in Progress	-	-	N/A
Subtotal	88,137	78,148	13%
Capital Assets Being Depreciated			
Depletable Assets	\$102,093	\$102,093	0%
Buildings	1,355,217	1,349,998	1%
Equipment	8,465,495	8,445,485	1%
Yard and Storage	-	-	0%
Infrastructure	5,831,018	4,810,527	%
Subtotal	15,753,823	14,708,103	7%
Total Capital Assets	15,841,960	14,786,251	7%
Total Accumulated Depreciation	7,821,123	7,134,150	10%
Total Net Capital Assets	\$8,020,837	\$7,652,101	5%

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$1,040,491 and an additional \$-0- in construction in progress related to the infrastructure. The infrastructure recorded, during 2005, will be depreciated in the following year. The infrastructure is financed through federal, state and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB 34.

During fiscal year 2005 the Road Commission Purchase \$9,989 worth of property in Kenton, installed a new door in the Millworks Building for \$5,219 and \$20,011 in various small pieces of equipment.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ -
Various Resurfacing Projects and Related Land/Right-of-Way	-
Construction in Progress (Various Resurfacing Projects)	1,020,491
Land/Land Improvement	9,989
Trucks/Equipment	20,011
Buildings	5,219
Yard and Storage	-
Total Additions	\$1,055,710

Houghton, County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Debt

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note I to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately 80% of its revenues from the fuel tax collected.

CLIENT RESPONSE HERE - - - - -

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Houghton County Road Commission's administrative offices at P.O. Box 269, Hancock, Michigan, 49930.

Houghton County Road Commission
Governmental Funds Balance Sheet / Statement of Net Assets
September 30, 2005

	Modified Accrual Basis	Adjustments	Statement Of Net Assets
ASSETS			
Cash and Cash Equivalents	\$ 600	\$ -	\$ 600
Investments	1,007,080	-	1,007,080
Accounts Receivable			
Taxes	-	-	-
Michigan Transportation Fund	600,395	-	600,395
State Highway - Other	-	-	-
Due From Primary Government	-	-	-
Due on County Road Agreements	148,352	-	148,352
Sundry Accounts	309	-	309
Inventories			
Road Materials	217,825	-	217,825
Equipment Parts and Materials	341,105	-	341,105
Prepaid Expenses	-	-	-
Deferred Expenses	2,272	-	2,272
Other Assets	-	-	-
Capital Assets (Net of Accumulated Depreciation)	-	8,020,837	8,020,837
Total Assets	<u>\$ 2,317,938</u>	<u>\$ 8,020,837</u>	<u>10,338,775</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 362	\$ -	\$ 362
Due to State of Michigan	-	-	-
Accrued Liabilities	26,521	-	26,521
Performance Bonds Payable	-	-	-
Due to Townships	-	-	-
Interest Payable	-	-	-
Advances	294,183	-	294,183
Deferred Revenue	368,000	-	368,000
Non-Current Liabilities			
Bonds Payable - Due Within One Year	-	-	-
Notes Payable - Due Within One Year	-	-	-
Bonds Payable - Due After One Year	-	-	-
Notes Payable - Due After One Year	-	-	-
Accumulated Employee Benefits	-	333,370	333,370
Total Liabilities	<u>689,066</u>	<u>333,370</u>	<u>1,022,436</u>
FUND BALANCE/NET ASSETS			
Fund Balances - Unreserved	<u>1,628,872</u>	<u>(1,628,872)</u>	<u>-</u>
Total Fund Equities	<u>1,628,872</u>	<u>(1,628,872)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 2,317,938</u>		
Net Assets			
Invested in Capital Assets - Net of Related Debt		8,020,837	8,020,837
Restricted for County Road		<u>1,295,502</u>	<u>1,295,502</u>
Total Net Assets		<u>\$ 8,020,837</u>	<u>\$ 9,316,339</u>

The Notes to Financial Statements are an integral part of this statement..

Houghton County Road Commission
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance / Statement of Activities
For the Year Ended September 30, 2005

	Modified Accrual Basis	Adjustments	Statement Of Net Assets
Revenue			
Property Taxes	\$ 478,394	\$ -	\$ 478,394
License and Permits	16,193	-	16,193
Federal Grants	59,809	-	59,809
State Grants	4,282,781	-	4,282,781
Contributions From Local Units	376,908	-	376,908
Charges for Services	37,152	-	37,152
Interest and Rents	18,322	-	18,322
Other Revenue	81,471	-	81,471
Total Revenue	<u>5,351,030</u>	<u>-</u>	<u>5,351,030</u>
Expenditures			
Current			
Primary Road Construction	-	-	-
Primary Road Heavy Maintenance	749,752	(749,752)	-
Primary Road Maintenance	1,669,022	-	1,669,022
Local Road Construction	-	-	-
Local Road Heavy Maintenance	270,739	(270,739)	-
Local Maintenance	2,159,782	-	2,159,782
State Trunkline Maintenance	-	-	-
Equipment Expense - Net	281,519	-	281,519
Administrative Expense - Net	484,981	-	484,981
Compensated Absences	-	(42,831)	(42,831)
Capital Outlay - Net	(643,720)	651,755	8,035
Infrastructure Depreciation	-	-	-
Other Expense	-	-	-
Debt Service			
Principal	-	-	-
Interest	1,968	-	1,968
Total Expenditures	<u>4,974,043</u>	<u>(411,567)</u>	<u>4,562,476</u>
Excess of Revenue Over (Under) Expenditures	<u>376,987</u>	<u>411,567</u>	<u>788,554</u>
Other Financing Sources			
Proceeds From Notes/Bonds Payable	-	-	-
Transfers In - Primary Government	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>376,987</u>	<u>411,567</u>	<u>788,554</u>
Change in Net Assets	<u>376,987</u>	<u>411,567</u>	<u>788,554</u>
Fund Balance/Net Assets - Beginning of Year	1,251,885	7,275,900	8,527,785
Fund Balance/Net Assets - End of Year	<u>\$ 1,628,872</u>	<u>\$ 7,687,467</u>	<u>\$ 9,316,339</u>

The Notes to the Financial Statements are an integral part of this statement.

Houghton County Road Commission

Notes to Financial Statements
September 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Houghton County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Houghton County Road Commission.

(1) Reporting Entity

The Houghton County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Houghton County Road Commission, a discretely presented component unit of Houghton County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

(2) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Houghton County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

(3) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(4) Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Taxes Receivable

The property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st. The 2004 taxable valuation of the Houghton County Road Commission amounted to \$533,130,817 less \$193,352,519 for cities and villages, on which ad valorem taxes of 1.3690 mills were levied for the Road Commission for road construction purposes for a total of \$478,394.

In the government-wide financial statements, the property taxes receivable is recorded as revenue when the tax is levied in the current year.

Although the county's 2004 ad valorem tax is levied and collectible on December 1, 2004, it is the Road Commission's policy to recognize revenues from the current tax levy in the current year. When the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Houghton County Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before September 30, 2007 as permitted by GASB 34.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund Statement of Net Assets.

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board does not conduct a public budget hearing, the budget is submitted to the county and included in its public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE C – CASH DEPOSITS AND INVESTMENTS:

The cash and investments are classified in the following categories:

Petty Cash	\$ 600
Investments – Held with County Treasurer	1,007,080
Total	<u>\$1,007,680</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, United States governmental or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivision which are treated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

The cash of the Road Commission needs to be considered in conjunction with the overall county cash position in regards to Governmental Accounting Standards Board Statement #3 and #40. This information can be found in the September 30, 2005 combined annual financial statements for the County of Houghton, Michigan.

NOTE D – DEFERRED COMPENSATION PLAN:

The Houghton County Road Commission offers all its employees a deferred compensation plan created accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Houghton County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Houghton County Road Commission's financial statements.

NOTE E – CAPITAL ASSETS:

Capital asset activity of the Houghton County Road Commission for the current year was as follows:

	Beginning Balances 10/01/04	Additions	Deletions	Ending Balances 9/30/05
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 78,148	\$9,989	\$ -	\$ 88,137
Land/Right-of-Way	-	-	-	-
Construction in Progress	-	-	-	-
Subtotal	<u>78,148</u>	<u>9,989</u>	<u>-</u>	<u>88,137</u>
Capital Assets Being Depreciated:				
Depletable Assets	102,093	-	-	102,093
Buildings	1,349,998	5,219	-	1,355,217
Road Equipment	8,113,884	16,879	-	8,130,763
Shop Equipment	209,243	1,800	-	211,043
Office Equipment	122,358	1,332	-	123,690
Engineers' Equipment	-	-	-	-
Yard and Storage	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	4,810,527	1,020,491	-	5,831,018
Subtotal	<u>14,708,103</u>	<u>1,045,721</u>	<u>-</u>	<u>15,753,824</u>
Less Accumulated Depreciation:				
Depletable Assets	37,786	973	-	38,759
Buildings	635,804	43,941	-	679,745
Road Equipment	6,229,707	620,006	-	6,849,713
Shop Equipment	125,771	14,682	-	140,453
Office Equipment	105,082	7,372	-	112,454
Engineers' Equipment	-	-	-	-
Yard and Storage	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	-	-	-	-
Subtotal	<u>7,134,150</u>	<u>686,974</u>	<u>-</u>	<u>7,821,124</u>
Net Capital Assets Being Depreciated	<u>7,573,953</u>	<u>358,747</u>	<u>-</u>	<u>7,932,700</u>
Total Net Capital Assets	<u>\$7,652,101</u>	<u>\$368,736</u>	<u>\$ -</u>	<u>\$8,020,837</u>

Depreciation expense was charged to programs of the Houghton County Road Commission as follows:

Equipment Expense:	
Direct	\$620,006
Indirect	46,780
Operating	8,207
Administrative Expense:	
Inventory	10,843
Maintenance	1,138
Total Depreciation Expense	<u>\$686,974</u>

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT:

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Houghton County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all nonunion employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Gabriel, Roeder, Smith & Company, One Town Square, Suite 800, Southfield, Michigan, 48076.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Houghton County Road Commission's competitive bargaining units and requires a contribution from the employees of 16.62% of gross wages for the County Road Commission.

Annual Pension Costs – For year ended 2005, Houghton County Road Commission's annual pension cost of \$66,972 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal funding method. Significant actuarial assumptions used include: (1) an 8% investment rate of return; (2) projected salary increases of 4.5% per year; and (3) 4.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of September 30 follows:

	2001	2002	2003
Annual Pension Cost (APC)	\$76,045	\$58,656	\$66,972
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	2,296,396	2,317,530	2,439,095
Actuarial Accrued Liability (AAL)	2,577,932	2,702,082	2,873,598
Unfunded AAL (UAAL)	281,536	384,552	434,503
Funded Ratio	89%	86%	85%
Covered Payroll	376,912	402,940	395,083
UAAL as a Percentage of Covered Payroll	75%	95%	110%

Defined Contribution Pension Plan

The Houghton County Road Commission provides pension benefits to all of its full-time union employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by union contract, the Houghton County Road Commission contributes a fixed amount per the union agreement, plus interest allocated to the employee's account, and are fully vested after 10 years of service.

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT (Continued):

The current year contribution was calculated based on \$65 per employee, for 40 employees, resulting in an employer contribution of \$101,729 and employee contributions of \$-0-.

NOTE G – FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended September 30, 2005, the Federal aid received and expended by the Road Commission was \$0 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

NOTE H – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION:

The Road Commission provides post-retirement health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Road Commission. Full premium of medical benefits for the retired employees only, between 60 and 65 years old are paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Currently, 3 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, net expenditures of \$4,099 were recognized for post-retirement health care.

NOTE I – GENERAL LONG-TERM DEBT:

The general long-term debt of the Road Commission may be summarized as follows:

	Balance October 1, 2004	Additions (Reductions)	Balance September 30, 2005
Vested Employee Benefits:			
Vacation Benefits	\$ 47,025	\$ (10,627)	\$ 36,398
Sick Leave Benefits	329,176	(32,204)	296,972
TOTAL	<u>\$ 376,201</u>	<u>\$ (42,831)</u>	<u>\$ 333,370</u>

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

NOTE I – GENERAL LONG-TERM DEBT (Continued):

Employees who anticipate the need for an extended vacation shall be allowed (on receiving approval from the County Engineer) to use up to two (2) weeks of the next year's vacation for such purpose, but not in the months of November, December, January, or February.

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 3/4 day, or 6 hours, for each completed month of employment. Sick leave may be accumulated to a maximum of 90 days. On an annual basis sick leave accruals over the 90 days are paid off at 100 percent for the first 5 days and 50 percent for any additional time accrued.

Three personal days are allowed each employee per calendar year. If the personal days are not used during the year they are added to the sick leave accruals for the year.

Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for all accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

Required Supplemental Information

Houghton County Road Commission
General Operating Fund
Statement of Revenues - Budget and Actual
For the Year Ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes	\$ 436,000	\$ 428,000	\$ 478,394	\$ 50,394
Licenses and Permits	-	-	16,193	16,193
Federal Aid				
Surface Transportation Program	328,000	-	-	-
Economic Development "D" Funds	100,000	368,000	-	(368,000)
FEMA	1,000,000	60,000	59,809	(191)
State Aid				
Michigan Transportation Fund:				
Engineering	10,000	10,000	10,000	-
Primary Road	2,250,000	2,265,000	2,092,544	(172,456)
Primary Urban Road	175,000	175,000	206,532	31,532
Local Road	945,000	945,000	1,099,048	154,048
Local Urban Road	105,000	105,000	128,569	23,569
Snow Removal	560,000	578,000	578,159	159
State Critical Bridge	-	-	287	287
Economic Development Fund:				
Forest Road "E" Funds	167,000	167,500	167,642	142
Contributions from Local Units				
Cities and Villages	-	-	600	600
Townships	50,000	350,000	374,165	24,165
Others	25,000	-	2,143	2,143
Charges for Service:				
Salvage sales	-	-	10,900	10,900
Other	-	-	26,252	26,252
Interest and Rents	-	-	18,322	18,322
Other:				
Reimbursements	100,000	75,000	77,971	2,971
Gain on Equipment Disposal(s)	-	33,500	3,500	(30,000)
Total Operating Revenue	<u>6,251,000</u>	<u>5,560,000</u>	<u>5,351,030</u>	<u>(208,970)</u>
Other Financing Sources				
Total Revenue and Other Financing Sources	<u>6,251,000</u>	<u>5,560,000</u>	<u>\$ 5,351,030</u>	<u>\$ (208,970)</u>
Fund Balance - October 1, 2004	<u>1,244,885</u>	<u>1,468,885</u>		
Total Budget	<u>\$ 7,495,885</u>	<u>\$ 7,028,885</u>		

Houghton County Road Commission
General Operating Fund
Statement of Expenditures - Budget and Actual
For the Year Ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Primary Roads:				
Construction	\$ -	\$ -	\$ -	\$ -
Heavy Maintenance	1,510,000	750,000	749,752	248
Maintenance	1,835,000	1,700,000	1,669,022	30,978
Local Roads:				
Construction	-	-	-	-
Heavy Maintenance	50,000	575,000	233,689	341,311
Maintenance	2,050,000	2,200,000	2,159,782	40,218
Primary Roads Structures:				
Construction	-	-	-	-
Heavy Maintenance	-	-	-	-
Maintenance	-	-	-	-
Local Roads Structures:				
Construction	-	-	-	-
Heavy Maintenance	-	50,000	37,050	12,950
Maintenance	-	-	-	-
State Trunkline Maintenance	-	-	-	-
Equipment Expense - Net	300,000	300,000	281,519	18,481
Direct			1,539,053	
Indirect			622,072	
Operating			252,104	
Less: Equipment Rentals			(2,131,710)	
Administrative Expense - Net	504,000	500,000	484,981	15,019
Administrative Expense			500,978	
Engineering Expense			-	
Less: Overhead - State Trunkline			(15,997)	
Purchase Discounts			-	
Capital Outlay - Net	(450,000)	(300,000)	(643,720)	343,720
Capital Outlay			35,219	
Less: Depreciation Credits	-	-	(678,939)	-
Less: Equipment Retirements	-	-	-	-
Other	445,000	-	-	-
Debt Service				
Principal Payment	-	-	-	-
Interest Expense	-	2,000	1,968	32
TOTAL EXPENDITURES	6,244,000	5,777,000	\$ 4,974,043	\$ 802,957
FUND BALANCE - September 30, 2005	1,251,885	1,251,885		
Total Budget	\$ 7,495,885	\$ 7,028,885		

Supplemental Financial Information

Houghton County Road Commission
Analysis of Changes in Fund Balance
For the Year Ended September 30, 2005

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Revenues	\$ 3,731,269	\$ 2,314,241	\$ 125,708	\$ 6,171,218
Expenditures	<u>4,298,078</u>	<u>2,574,010</u>	<u>(291,274)</u>	<u>6,580,814</u>
Excess of Revenues Over (Under) Expenditures	<u>(566,809)</u>	<u>(259,769)</u>	<u>416,982</u>	<u>(409,596)</u>
Other Financing Sources (Uses)				
Interfund Transfers In (Out)	<u>566,809</u>	<u>259,769</u>	<u>(826,578)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>566,809</u>	<u>259,769</u>	<u>(826,578)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>(409,596)</u>	<u>(409,596)</u>
Fund Balance - October 1	<u>-</u>	<u>-</u>	<u>1,251,885</u>	<u>1,251,885</u>
FUND BALANCE - SEPTEMBER 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 842,289</u>	<u>\$ 1,628,872</u>

Houghton County Road Commission

Analysis of Revenues

For the Year Ended September 30, 2005

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Taxes	\$ -	\$ 478,394	\$ -	\$ 478,394
Licenses and Permits	5,139	-	11,054	16,193
Federal Aid				
FEMA	-	59,809	-	59,809
State Aid				
Michigan Transportation Fund:				
Engineering	6,556	3,444	-	10,000
Primary Road	2,092,544	-	-	2,092,544
Primary Urban Road	206,532	-	-	206,532
Local Road	-	1,099,048	-	1,099,048
Local Urban Road	-	128,569	-	128,569
Snow Removal	-	578,159	-	578,159
State Critical Bridge	-	287	-	287
Economic Development Fund:				
Forest Road "E" Funds	104,826	62,816	-	167,642
Contributions from Local Units				
Cities and Villages	-	-	600	600
Townships	353,607	20,558	-	374,165
Others	-	-	2,143	2,143
Charges for Service:				
Salvage sales	-	-	10,900	10,900
Other	8,332	17,920	-	26,252
Interest and Rents	-	-	18,322	18,322
Other:				
Reimbursements	-	-	77,971	77,971
Gain on Equipment Disposal(s)	-	-	3,500	3,500
Total Operating Revenue	<u>2,777,536</u>	<u>2,449,004</u>	<u>124,490</u>	<u>5,351,030</u>
Other Financing Sources				
Total Revenue and Other Financing Sources	<u>\$ 2,777,536</u>	<u>\$ 2,449,004</u>	<u>\$ 124,490</u>	<u>\$ 5,351,030</u>

Houghton County Road Commission
Analysis of Expenditures
For the Year Ended September 30, 2005

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary Roads:				
Heavy Maintenance	\$ 749,752	\$ -	\$ -	\$ 749,752
Maintenance	1,669,022	-	-	1,669,022
Local Roads:				
Heavy Maintenance	-	233,689	-	233,689
Maintenance	-	2,159,782	-	2,159,782
Primary Roads Structures:				
Local Roads Structures:				
Heavy Maintenance	-	37,050	-	37,050
Equipment Expense - Net	116,859	160,240	4,420	281,519
Direct				
Indirect				
Operating				
Less: Equipment Rentals				
Administrative Expense - Net	241,903	243,078	-	484,981
Administrative Expense				
Engineering Expense				
Less: Overhead - State Trunkline				
Purchase Discounts				
Capital Outlay - Net	-	-	(643,720)	(643,720)
Capital Outlay				
Debt Service				
Interest Expense	-	-	1,968	1,968
TOTAL EXPENDITURES	\$ 2,777,535	\$ 2,833,839	\$ (637,332)	\$ 4,974,043

Compliance Section



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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IRON MOUNTAIN
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MARQUETTE

WISCONSIN
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Road Commissioners
Houghton County Road Commission
Hancock, MI 49930

We have audited the financial statements of the Houghton County Road Commission; component units of the County of Houghton, Michigan as of and for the year ended September 30, 2005, and have issued our report thereon dated January 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Houghton County Road Commission's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Houghton County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect the Houghton County Road Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in a separate letter to management dated January 13, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

Board of County Road Commissioners
Houghton County Road Commission
Hancock, MI 49930

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management, the audit committee, the Board, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 13, 2006



Houghton County Road Commission
Report to Management Letter
For the Year Ended September 30, 2005

To the Honorable Chairman and Members of
The Board of County Road Commissioners
Houghton County Road Commission
Houghton, MI 49931

In planning and performing our audit of the financial statements of the Houghton County Road Commission for the year ended September 30, 2005, we considered its internal accounting control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable Conditions

Inventory

We found that 14 of the 40 parts inventory items, tested the quantities in the perpetual inventory records were overstated. This resulted in a sample variance of 35%. We recommend that a physical inventory be taken on the total inventory annually. Also, we recommend that the Road Commission monitor the inventory on a regular basis.

* * * * *

The above reportable conditions in the internal control structure are noted for your consideration. The following comments are not reportable conditions as defined by the AICPA but are management points for which we feel consideration should also be given.

To the Honorable Chairman and Members of
The Board of Commissioners
County of Houghton, Michigan

Other Comments and Recommendations

GASB No. 34 Implementation

The Governmental Accounting Standards Board has recently issued Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" which will completely change the way local governments are required to prepare financial reports and infrastructure information. The thresholds and effective dates of the new reporting model is based on governmental and enterprise fund revenues for the base period ending in 1999.

Based on the financial results of the County of Houghton for the year ending September 30, 1999, you are required to implement the infrastructure reporting portion of GASB #34 for the year ending September 30, 2007.

Although implementation of the infrastructure reporting model is for the year ended September 30, 2007 the actual preparation must consider that the implementation affects the first date of that fiscal year. In other words you must be prepared to gather the proper information and implement the new standard as of September 30, 2006. The Board should consider developing an implementation plan that includes input from and consultation with the audit firm, individual units with the primary government, departments, and component units. We encourage you to start to begin preparing for this implementation as you are nearing the initial period.

* * * * *

This report is intended solely for the information and use of the Commission's management, and others within the County Administration.

We appreciate and would like to thank the Commission's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Andersen, Tackman & Company, PLLC
Certified Public Accountants

January 13, 2006